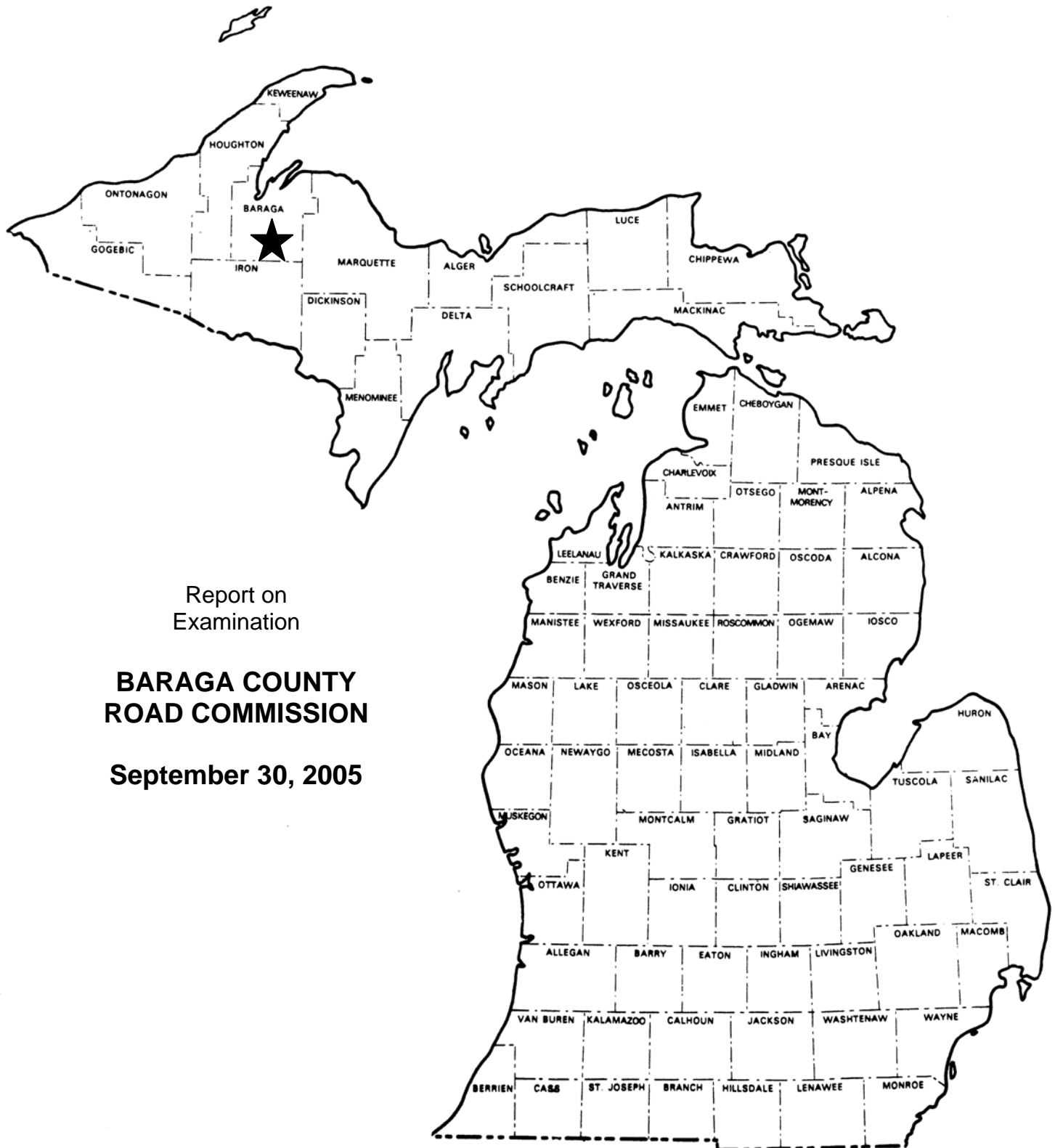


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**BARAGA COUNTY
ROAD COMMISSION**

September 30, 2005

Local Audit and Finance Division
Bureau of Local Government Services

BARAGA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Anthony R. Selkey
Chairperson

Harold Miron
Vice Chairperson

Roy Koski
Member

Douglas J. Mills, P.E.
Engineer/Manager

Mary R. Bedner
Clerk/Office Manager

COUNTY POPULATION--2000
8,746

STATE EQUALIZED VALUATION--2005
\$280,702,907



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

February 8, 2006

Board of County Road Commissioners
Baraga County
US 41 South
P.O. Box 217
L'Anse, Michigan 49946

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Baraga County Road Commission, a component unit of Baraga County, Michigan, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Baraga County Road Commission as of September 30, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 8, 2006 on our consideration of the Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Baraga County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits I through K is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards (Schedule 1) is presented for purposes of additional analysis as required by US Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The Management's Discussion and Analysis on pages 1 through 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

BARAGA COUNTY ROAD COMMISSION

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BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Baraga County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2005. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report on the Road Commission's Major Fund

The fund financial statements begin with Exhibit A and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

This is the second year of implementation for GASB No. 34 and as such a comparative analysis between years has been presented. The Road Commission's net assets increased approximately 101% or \$4,883,665 from \$4,812,338 to \$9,696,003 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,534,646 during 2005, a decrease of \$338,615 from the prior year. The change was primarily the result of a reduction in Michigan Transportation Fund (MTF) funding and maintenance activity expenditures as compared to 2004.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net or related debt) are considered restricted. The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The investment in capital assets for 2005, net of related debt, was \$8,161,357, an increase of \$5,222,280 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$5,212,698 for the year 2005.

Net assets as of the year ended September 30, 2005 are as follows:

	Governmental Activities 09/30/04	Governmental Activities 09/30/05	Variance	Percentage
Current and Other Assets	\$ 2,474,451	\$ 2,818,471	\$ 344,020	13.90%
Net Capital Assets	<u>3,761,097</u>	<u>8,830,329</u>	<u>5,069,232</u>	<u>134.78%</u>
Total Assets	<u>6,235,548</u>	<u>11,648,800</u>	<u>5,413,252</u>	<u>86.81%</u>
Current Liabilities	282,131	934,834	(652,703)	-69.82%
Noncurrent Liabilities	<u>1,141,079</u>	<u>1,017,963</u>	<u>123,116</u>	<u>12.09%</u>
Total Liabilities	<u>1,423,210</u>	<u>1,952,797</u>	<u>529,587</u>	<u>37.21%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	2,939,077	8,161,357	5,222,280	177.68%
Restricted	<u>1,873,261</u>	<u>1,534,646</u>	<u>(338,615)</u>	<u>-18.08%</u>
Total Net Assets	<u>\$ 4,812,338</u>	<u>\$ 9,696,003</u>	<u>\$ 4,883,665</u>	<u>101.48%</u>

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in net assets for the year ended September 30, 2005 follows:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Federal Grants	2,076,095	4,038,602	1,962,507	48.59%
State Grants	2,459,356	2,740,355	280,999	10.25%
Contributions From Local Units	159,890	99,042	(60,848)	-61.44%
Charges for Services	10,226	5,375	(4,851)	-90.25%
Investment Earnings	15,268	14,140	(1,128)	-7.98%
Reimbursements	26	80	54	67.50%
General Revenue				
Property Taxes	270,291	296,092	25,801	8.71%
Gain on Equipment Disposal	(1,049)	(741)	308	41.57%
Total Revenue	<u>4,990,103</u>	<u>7,192,945</u>	<u>2,202,842</u>	<u>30.63%</u>
Expenses				
Primary Road Maintenance	794,164	627,138	167,026	21.03%
Local Road Maintenance	1,679,746	1,500,679	179,067	10.66%
Net Equipment Expense	(290,723)	(228,367)	62,356	21.45%
Net Administrative Expense	327,622	327,195	427	0.13%
Infrastructure Depreciation Expense		34,569	(34,569)	-100.00%
Compensated Absences	(25,822)	29,932	(55,754)	215.92%
Interest Expense	26,126	18,134	7,992	30.59%
Total Expenses	<u>2,511,113</u>	<u>2,309,280</u>	<u>201,833</u>	<u>8.04%</u>
Increase in Net Assets	<u>\$ 2,478,990</u>	<u>\$ 4,883,665</u>	<u>\$ 2,404,675</u>	<u>97.00%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Revenues				
Taxes	\$ 270,291	\$ 296,092	\$ 25,801	9.55%
Federal Aid	2,076,095	4,215,192	2,139,097	103.03%
State Aid	2,459,356	2,768,926	309,570	12.59%
Contributions From Local Units	159,890	99,042	(60,848)	-38.06%
Charges for Services	203	670	467	230.05%
Interest and Rents	15,268	14,141	(1,127)	-7.38%
Other Revenue	9,000	4,044	(4,956)	-55.06%
	<u>4,990,103</u>	<u>7,398,107</u>	<u>2,408,004</u>	<u>48.26%</u>
Total Revenues				
Expenditures				
Public Works	4,572,632	7,093,315	(2,520,683)	-55.13%
Capital Outlay--Net	215,481	237,131	(21,650)	-10.05%
Debt Service	242,246	246,825	(4,579)	-1.89%
	<u>5,030,359</u>	<u>7,577,271</u>	<u>(2,546,912)</u>	<u>-50.63%</u>
Total Expenditures				
Excess of Expenditures Over Revenues	(40,256)	(179,164)	(138,908)	-345.06%
Other Financing Sources				
Installment Purchase Proceeds	275,000	75,642	(199,358)	-72.49%
	<u>275,000</u>	<u>75,642</u>	<u>(199,358)</u>	<u>-72.49%</u>
Total Other Financing Sources				
Excess of Revenues and Other Financing Sources Over Expenditures	234,744	(103,522)	(338,266)	144.10%
Fund Balance--Beginning	1,527,093	1,761,837	234,744	15.37%
Fund Balance--Ending	<u>\$ 1,761,837</u>	<u>\$ 1,658,315</u>	<u>\$ (103,522)</u>	<u>-5.88%</u>

For the year ended September 30, 2005, the fund balance of the General Operations Fund decreased \$103,522 as compared to an increase of \$234,744 in the fund balance for the fiscal year ended September 30, 2004. Total operating revenues were \$7,398,107, an increase of \$2,408,004 as compared to last year. This change in revenues resulted from, comparing the two periods, a substantial increase in Federal Aid. The increase in Federal aid included a major bridge replacement project and continued work on projects approved for flood recovery from the 2002 and 2003 flood events. The Bureau of Indian Affairs, U.S. Army Corps of Engineers, Federal Highway Administration (FHWA) Emergency Relief Program, and Federal Emergency Management Agency (FEMA) all provided additional funding in the 2005 fiscal year.

Total expenditures were \$7,577,271, an increase of \$2,546,912 in comparison to last year. This change in expenditures is primarily the result of the reconstruction of one bridge and the construction of two new bridges during 2005.

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights for 2005

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2005 was \$10,370,000, which was \$2,971,893 less than the actual revenue received for the year. This was due, in large part, to the Road Commission receiving less certain Federal and State aid project funding during the year than was originally planned. Several US Army Corps of Engineer projects that were anticipated in the original budget were not funded in 2005. Much of the US Army Corps of Engineers funding was earmarked by Congress for hurricane relief in the Southern states due to the devastating hurricane season.

The Road Commission's original expenditures were projected at \$10,545,000, while actual expenditures were \$7,577,271 resulting in actual expenditures being less than the budget by \$2,967,729. This was primarily due to one major road reconstruction project being shifted to 2006 and several US Army Corps of Engineer Projects that were not funded for construction in 2005.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2005, the Road Commission had \$8,830,329 invested in capital assets as follows:

	<u>09/30/04</u>	<u>09/30/05</u>	<u>Percentage Change</u>
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 106,277	\$ 106,277	0.00%
Infrastructure--Land and Improvements	<u>1,401,237</u>	<u>3,666,277</u>	<u>61.78%</u>
Capital Assets Being Depreciated			
Buildings	490,069	495,326	1.06%
Road Equipment	5,292,582	5,382,778	1.68%
Shop Equipment	99,994	100,926	0.92%
Office Equipment	45,120	130,885	65.53%
Engineer's Equipment	103,319	103,559	0.23%
Stockroom Equipment	42,170	42,653	1.13%
Depletable Assets	53,083	53,083	0.00%
Infrastructure--Bridges	596,505	2,807,429	78.75%
Infrastructure--Roads	<u>448,143</u>	<u>1,184,878</u>	<u>62.18%</u>
Total Capital Assets	8,678,499	14,074,071	38.34%
Total Accumulated Depreciation	<u>(4,917,402)</u>	<u>(5,243,742)</u>	<u>6.22%</u>
Total Net Capital Assets	<u>\$ 3,761,097</u>	<u>\$ 8,830,329</u>	<u>57.41%</u>

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$5,212,698. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

This year's major capital asset additions included the following:

Construction and Reconstruction of Bridges	\$2,488,771
Various Resurfacing Projects and Related Land/Right-of-Way	2,723,927
Road Equipment	130,654
Building	5,257
Other Various Equipment	<u>101,221</u>
Total Additions	<u><u>\$5,449,830</u></u>

There was one new installment purchase agreement entered into during 2005 for the new software; all other equipment was acquired with Road Commission funds.

Debt

At the year end, the Road Commission had \$393,971 in installment purchase agreements versus \$547,020 last year, a decrease of \$153,048 or 28% as shown below:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 547,020</u>	<u>\$ 393,971</u>	<u>\$ 153,049</u>	<u>27.98%</u>
Total	<u><u>\$ 547,020</u></u>	<u><u>\$ 393,971</u></u>	<u><u>\$ 153,049</u></u>	<u><u>27.98%</u></u>

As indicated above, there was a new installment purchase during 2005 for computer software in the amount of \$75,642 and is payable in 3 years. For detailed information about the Road Commission's long-term liabilities, see Note G to the financial statements.

During 2004, the Road Commission entered into a three year agreement with the State Infrastructure Bank for a three year \$275,000, 0% loan to be paid in full at the end of the third year (2007).

BARAGA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budget

The needs of those who depend on the Michigan Transportation System continue to grow. The cost of equipment, material and personnel continue to increase since the gas tax was last increased in 1997. Road commissions have been forced to defer capital improvements and maintenance on roads, bridges and culverts. The annual growth of the Michigan Transportation Fund (MTF) revenue has not kept pace with the cost increases for construction and maintenance. The erosion of our basic funding source also limits our ability to undertake proper long-range planning and manage the public assets. Local road agencies, including Baraga County, are not able to keep pace with necessary transportation needs.

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the major factors is the Michigan Transportation Fund (MTF). The MTF provides the primary operating revenue for the Road Commission. The MTF, Act 51 of 1951 provides for the distribution of over \$2.0 billion of fuel taxes and vehicle registration fees collected in Michigan. After deductions of 1 cent of the 1997 gas tax increase for bridges, \$43 million for state debt service and deductions for other state agencies, public transit, economic development and local bridge programs, the balance is distributed by formula; state-39.1%, counties-39.1%, and cities and villages-21.8%.

Changes by the State of Michigan in trailer plate fee collections resulted in a one year spike in the MTF in 2004. Because the trailer plates are now purchased one time instead of annually, revenues from the collections increased the MTF funding for 2004, with a substantial decrease in 2005. The trailer plate collections in 2006 are expected to remain at 2005 levels, significantly down from 2004 levels.

The State of Michigan also continues to allow MTF funds to be utilized by, and provide funding for, other State departments. This money comes off the top of the MTF and results in less dollars available to the Michigan Department of Transportation, County Road Commissions and City & Village street departments.

Fuel tax collections are also expected to be down in 2006 due to less consumption. The less consumption results from higher fuel prices, the economic conditions throughout the state, more fuel efficient vehicles, and increased use of hybrid vehicles and alternative fuels. If there is less consumption there will be less Michigan Transportation Fund tax collections and less dollars distributed to road agencies.

Because of the above reasons, the total anticipated MTF funding for Baraga County was estimated to remain flat for the 2006 fiscal year as compared to 2005.

BARAGA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Another factor considered when setting the fiscal year 2006 budget was the availability of funding sources other than the MTF. In Baraga County, the road commission anticipates several road projects and one bridge replacement project to be partially funded by various State and Federal agencies, including the Bureau of Indian Affairs. While a substantial portion of road commission revenue comes from state and federal sources to partially fund such projects, local funding is also needed to provide matching dollars. Countywide road millage, township millages, township contributions and tribal contributions are also anticipated to provide revenue toward many projects and maintenance activities in the 2006 fiscal year.

In summary, key revenue factors and expenditure concerns were analyzed during the preparation of the 2006 fiscal year budget. Revenue factors included: *flat MTF funding; limited local funding resources and limited availability of other state and federal program funds*. Expenditure concerns included: *major increases in materials such as fuel, asphalt, aggregate and steel; continued employee health insurance cost increases and unfunded employee retirement liability*. All of these concerns in addition to the general items previously discussed were considered when adopting the budget for 2006. Amounts expected to be available for appropriation in the 2006 budget are \$7,220,000.

The board realizes, and the reader should understand, that there are not sufficient funds available to adequately address the needs of the county road system, as a whole. Additional preventative maintenance, reconstruction, bituminous resurfacing and surfacing gravel roads throughout the county is needed. Many needed projects and activities remain unfunded and priorities must be established for the entire system. The preparation of the budget is challenging, however, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Baraga County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Baraga County administrative offices at: US 41 South, L'Anse, Michigan, 49946.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

ASSETS

Cash	\$ 1,353,135
Accounts Receivable	
Sundry Accounts	22,779
Michigan Transportation Fund	307,681
State--Other	225,795
Due From Federal	408,914
Inventories	
Road Materials	325,484
Equipment Parts and Materials	125,583
Prepaid Expenses	49,100
Capital Assets (Net of Accumulated Depreciation)	<u>8,830,329</u>
Total Assets	<u>11,648,800</u>

LIABILITIES

Current Liabilities	
Accounts Payable	82,948
Retainage Payable	19,426
Due to State of Michigan	793,951
Accrued Liabilities	44,449
Driveway Snow Plowing Deposits	(10,987)
Other Accrued Liabilities	5,047
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due in One Year	204,642
Installment Purchase Agreements Payable--Due in More Than One Year	189,330
State Infrastructure Bank Payable--Due in More Than One Year	275,000
Vested Employee Benefits Payable	<u>348,991</u>
Total Liabilities	<u>1,952,797</u>

NET ASSETS

Investment in Capital Fixed Assets	
Net of Related Debt	8,161,357
Restricted for County Roads	<u>1,534,646</u>
Total Net Assets	<u>\$ 9,696,003</u>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 627,138
Local Road Maintenance	1,500,679
Net Equipment Expense	(228,367)
Net Administrative Expense	327,195
Infrastructure Depreciation	34,569
Compensated Absences	29,932
Interest Expense	18,134
	<hr/>
Total Program Expenses	2,309,280
	<hr/>
Program Revenue	
Charges for Services	
Charges for Services	5,375
Reimbursements	80
Operating Grants and Contributions	
Michigan Transportation Funds	2,105,311
Investment Earnings	14,140
Capital Grants and Contributions	
Federal Grants	4,038,602
State Grants	635,044
Contributions From Local Units	99,042
	<hr/>
Total Program Revenue	6,897,594
	<hr/>
Net Program Revenue	4,588,314
	<hr/>
General Revenue	
Taxes	296,092
Gain on Equipment Disposal	(741)
	<hr/>
Total General Revenues and Transfers In	295,351
	<hr/>
Change in Net Assets	4,883,665
	<hr/>
Net Assets	
Beginning of Year	4,812,338
	<hr/>
End of Year	\$ 9,696,003
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2005

EXHIBIT C

GOVERNMENTAL
FUND TYPE

General
Operating
Fund

ASSETS

Bank Deposits	\$ 1,353,135
Accounts Receivable	
Michigan Transportation Funds	307,681
State Highway--Other	225,795
Sundry Accounts	22,779
Due From Federal Government	408,914
Inventories	
Road Materials	325,484
Equipment Parts and Materials	125,583
Prepaid Expense	49,100
	<hr/>
Total Assets	<u>\$ 2,818,471</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 82,948
Retainage Payable	19,426
Accrued Liabilities	44,449
Due to State	793,951
Other Accrued Liabilities	5,047
Advances	
Driveway Plowing	(10,987)
Deferred Revenue--FEMA	225,322
	<hr/>
Total Liabilities	<u>1,160,156</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	451,067
Reserved for Self-Insurance	225,770
Unreserved and Undesignated	981,478
	<hr/>
Total Fund Equities	<u>1,658,315</u>
	<hr/>
Total Liabilities and Fund Equities	<u>\$ 2,818,471</u>

The Notes to Financial Statements are an integral part of this statement.

**BARAGA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2004**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,658,315
---------------------------------	--------------

Amounts reported for governmental activities in the Statement of Net Assets are
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	8,830,329
--	-----------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	(1,017,963)
---	-------------

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds	<u>225,322</u>
--	----------------

Net Assets of Governmental Activities	<u><u>\$ 9,696,003</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

**BARAGA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2005**

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 296,092
Federal Aid	4,215,192
State Aid	2,768,926
Contributions From Local Units	99,042
Charges for Services	670
Interest and Rents	14,141
Other Revenue	<u>4,044</u>
Total Revenues	<u>7,398,107</u>
Expenditures	
Public Works	7,093,315
Capital Outlay	237,131
Debt Service	<u>246,825</u>
Total Expenditures	<u>7,577,271</u>
Excess of Revenues Over (Under) Expenditures	(179,164)
Other Financing Sources	
Installment Purchase Proceeds	<u>75,642</u>
Total Other Financing Sources	75,642
Excess Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(103,522)</u>
Fund Balance--October 1, 2004	<u>1,761,837</u>
Fund Balance--September 30, 2005	<u><u>\$ 1,658,315</u></u>

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ (103,522)
--	--------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	5,069,232
---	-----------

Deferred revenue is not available pay for current period expenditures and, therefore, not reported in the funds	(205,161)
---	-----------

Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	153,049
---	---------

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in Interest expense.)	<u>(29,933)</u>
--	-----------------

Change in Net Assets of Governmental Activities	<u><u>\$4,883,665</u></u>
---	---------------------------

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Baraga County Road Commission conform to generally accepted accounting principles (GAAP) in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by Baraga County Road Commission.

NOTE A--REPORTING ENTITY

The Baraga County Road Commission, which is established pursuant to the County Road Law Michigan Compiled Law (MCL) 224.1, is governed by an elected 3-member board of county road commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors, and would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Baraga County Road Commission, a discretely presented component unit of Baraga County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Baraga County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the Operating Fund (governmental fund). The Operating Fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Investments are recorded at cost.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs, and operations as used.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Baraga County Road Commission as assets with an initial individual cost of more than \$200 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 makes it optional for phase III governments (Baraga County) to record major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated, for fiscal years ending after June 30, 1980, and that they be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Baraga County Road Commission has capitalized the current year's infrastructure starting in 2004, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2008, as permitted by GASB Statement No. 34.

Depreciation on Road Commission capital assets is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other fixed assets. The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to a depreciation credit account. Accordingly, the annual depreciation expense does not affect the available operating equities of the General Operating Fund. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Property Taxes

The 2004 taxable valuation was \$176,007,173 on which ad valorem taxes of 1.9625 mills were levied for the Road Commission and the Villages of L'Anse and Baraga's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

The county's 2004 ad valorem tax was levied and collectible on December 1, 2004. It is the county's policy to recognize revenues from the current tax levy in the subsequent year when the proceeds of the levy are budgeted and made available for financing operations. The 2004 tax levy for Road Commission operations were recorded as revenue during the year ended September 30, 2005 totaling \$296,092 for all taxes received.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures or when credited, by the financial institutions, to the interest-bearing account.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Procedures

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the county board of road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year, and is approved by the board.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Also, the board has authorized the chief administrative officer and fiscal officer to amend the Road Commission's budget when necessary, without increasing the overall budget, by transferring up to 20% from one line-item to another.

The budget is prepared on the modified accrual basis of accounting, which is the same basis as the fund financial statements.

NOTE D--DEPOSITS AND INVESTMENTS

Michigan Compiled Laws 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated three banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings	
Accounts, Certificates of Deposit)	\$ 1,353,035
Petty Cash and Cash on Hand	<u>100</u>
Total	<u><u>\$ 1,353,135</u></u>

The bank balance of the primary government's deposits is \$1,442,831, of which \$240,453 is covered by Federal depository insurance.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--DEFERRED COMPENSATION PLAN

The Baraga County Road Commission offers all Road Commission employees a choice of three deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. During 1998, the assets of the plan were held in a trust in a custodial account as described in IRS Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are: Nationwide Retirement Solutions, Hartford Life Insurance Company and EF Jones Insurance and are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE F--RESERVE FOR SELF-INSURANCE

The Baraga County Board of Road Commissioners' policy is to self-insure for fleet collision coverage and employee group life coverage. The Collision Insurance Reserve Account was established in 1969 and the Life Insurance Reserve Account in 1982. The reserve accounts are funded by annual transfers of amounts equal to what the approximate premium would be on the respective coverage, plus interest earned on interest-bearing deposits of the reserve account. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account are greater than the estimated premium cost. All collision repair costs on road equipment and group life benefit payments are expensed when paid and closed to the respective reserve account at year-end.

	<u>Collision Insurance Reserve</u>	<u>Life Insurance Reserve</u>	<u>Total Self-Insurance Reserve</u>
Balance--October 1, 2004	\$ 150,083	\$ 72,314	\$ 222,397
Additions			
Interest Earned	<u>2,276</u>	<u>1,097</u>	<u>3,373</u>
Balance--September 30, 2005	<u>\$ 152,359</u>	<u>\$ 73,411</u>	<u>\$ 225,770</u>

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/04</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/05</u>	<u>Due Within</u> <u>One Year</u>
<u>Installment Purchase Agreement</u>				
Payable to Commercial National Bank for				
One CAT D3 Dozer	\$ 25,707	\$ (20,457)	\$ 5,250	\$ 5,250
One Case 821 C Loader	59,982	(47,734)	12,248	12,248
Four CAT 140H Motor Graders	461,331	(156,626)	304,705	163,116
Payable to De Lage Landen Financial Services				
Software System		75,642 (3,874)	71,769	24,029
State Infrastructure Bank (SIB) Loan	275,000		275,000	
Vested Employee Benefits Payable				
Vacation Benefits	75,885	9,366	85,251	
Sick Leave Benefits	<u>243,174</u>	<u>20,566</u>	<u>263,740</u>	
Total	<u>\$ 1,141,079</u>	<u>\$ (123,117)</u>	<u>\$ 1,017,963</u>	<u>\$ 204,643</u>

Installment Purchase Contract

The installment purchase contract was entered into on December 16, 2002 for the purchase of one CAT D3 Dozer for at a cost of \$60,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$1,745.99 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$ 5,250</u>	<u>\$ 25</u>	<u>\$ 5,275</u>
Total	<u>\$ 5,250</u>	<u>\$ 25</u>	<u>\$ 5,275</u>

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The installment purchase contract was entered into on December 16, 2002 for the purchase of a 2003 Case 821 C Loader at a cost of \$140,000 from Commercial National Bank. The agreement bears interest at 3.04% per annum with 36 monthly payments of \$4,073.97 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	<u>\$12,248</u>	<u>\$ 89</u>	<u>\$12,337</u>
Total	<u><u>\$12,248</u></u>	<u><u>\$ 89</u></u>	<u><u>\$12,337</u></u>

The installment purchase contract was entered into on July 16, 2003 for the purchase of Four CAT 140H Motor Graders for a total cost of \$635,802 from Commercial National Bank. The agreement bears interest at 4.04% per annum with 48 monthly payments of \$14,367.19 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 163,116	\$ 9,290	\$ 172,406
2007	<u>141,589</u>	<u>2,625</u>	<u>144,214</u>
Total	<u><u>\$ 304,705</u></u>	<u><u>\$ 11,915</u></u>	<u><u>\$ 316,620</u></u>

The installment purchase contract was entered into on May 5, 2005, for the purchase of a new software system for a total cost of \$75,642 from De Lage Landen Financial Services, Inc. The agreement bears interest at 5.82% per annum with 36 monthly payments of \$2,289.84 and is summarized as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 24,028	\$ 3,450	\$ 27,478
2007	25,426	2,052	27,478
2008	<u>22,315</u>	<u>584</u>	<u>22,899</u>
Total	<u><u>\$ 71,769</u></u>	<u><u>\$ 6,086</u></u>	<u><u>\$ 77,855</u></u>

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--LONG-TERM DEBT (Continued)

The State Infrastructure Bank loan contract was entered into on February 13, 2004 for the purchase of financing infrastructure improvements for a total cost of \$275,000 from Michigan Department of Treasury. The agreement bears no interest and the full amount is due February 13, 2007.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006			
2007	<u>\$275,000</u>	<u></u>	<u>\$ 275,000</u>
Total	<u>\$275,000</u>	<u>\$ -</u>	<u>\$ 275,000</u>

Vacation Benefits

The Road Commission's employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. All vacation time accrued through December 31 of the current year shall be utilized in the following year.

Sick Leave Benefits

The sick leave benefits liability recorded as long-term debt in the Statement of Net Assets reflects only those vested benefits which would be payable should an employee quit.

The Road Commission's employment policies provide that sick leave is accumulated at the rate of 1 day per month for all regular employees who have worked more than ½ of the normal working hours during the month. There is no limit on the accumulation of sick leave and accumulated benefits shall be paid at the employee's prevailing rate of pay in accordance with the following policy:

1. Retirement or Death--An employee shall receive pay in a lump sum for accumulated sick leave at the following rate: 100% of the first 120 days and 50% of the remainder.
2. Resignation--An employee shall receive pay in a lump sum for accumulated vested sick leave computed as follows:

0-5 years	No sick leave benefits
5-10 years	50% of accumulated benefits
10-15 years	75 % of the first 120 days, and 50% of the remainder
15 or more years	100% of the first 120 days, and 50% of the remainder

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS

Following is a summary of the changes in the capital assets at September 30, 2005.

	Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 106,277			\$ 106,277
Infrastructure--Land Improvements	1,401,237	\$ 2,265,040		3,666,277
Subtotal	1,507,514	2,265,040	\$ -	3,772,554
Capital Assets Being Depreciated				
Buildings	490,069	5,257		495,326
Road Equipment	5,292,581	130,654	40,458	5,382,777
Shop Equipment	99,994	9,707	8,775	100,926
Office Equipment	45,120	90,790	5,024	130,886
Engineers' Equipment	103,319	240		103,559
Stockroom Equipment	42,170	483		42,653
Depletable Assets	53,083			53,083
Infrastructure--Bridges	596,505	2,210,924		2,807,429
Infrastructure--Roads	448,143	736,735		1,184,878
Total	7,170,984	3,184,790	54,257	10,301,517
Less Accumulated Depreciation				
Buildings	291,906	11,069		302,975
Road Equipment	4,377,219	308,241	40,458	4,645,002
Shop Equipment	81,459	4,032	8,034	77,457
Office Equipment	36,726	6,325	5,024	38,027
Engineers' Equipment	47,114	9,787		56,901
Stockroom Equipment	33,154	2,978		36,132
Depletable Assets	49,824	2,855		52,679
Infrastructure--Bridges		11,930		11,930
Infrastructure--Roads		22,639		22,639
Total	4,917,402	379,856	53,516	5,243,742
Net Capital Assets Being Depreciated	2,253,582	3,184,790	380,597	5,057,775
Total Net Capital Assets	\$ 3,761,096	\$ 5,449,830	\$ 380,597	\$ 8,830,329

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 308,242
Indirect Equipment	17,149
Net Administrative Expenses	
Office	6,324
Engineering	9,787
Building	930
Depletable Assets	2,855
Infrastructure Depreciation	<u>34,569</u>
Total Depreciation Expense	<u>\$ 379,856</u>

NOTE I--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefit claims, self insures for fleet collision and employee group life coverage as detailed in Note F, and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, errors and omissions, physical damage (equipment, buildings and contents) and workers compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the state. The Baraga County Road Commission became a member of the pool in 1980 for workers compensation insurance and in 1984 for liability and property coverage.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Baraga County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death, duty-connected death, and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.00% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851 MCL 46.12(a), as amended, State of Michigan. The MERS actuarial report was made in accordance with generally recognized actuarial methods in compliance with Public Act 220 of 1996, as amended, and the MERS plan document as revised. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission is required to contribute at an actuarially determined rate; the rate was 13.00% for the calendar year ending December 31, 2004.

Annual Pension Cost

During the calendar year ended December 31, 2004, the Road Commission's contributions totaling \$127,965 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$114,527	100%	\$0
2003	113,841	100%	0
2004	127,965	100%	0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/02	\$ 4,139,171	\$ 5,175,064	\$ 1,035,893	80%	\$ 1,003,239	103%
12/31/03	4,195,102	5,630,744	1,435,642	75%	1,078,124	133%
12/31/04	4,197,945	5,855,691	1,657,746	72%	1,035,844	160%

Significant actuarial assumptions used include:

- 1) Long-term investment yield rate of 8%;
- 2) Annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases; and
- 3) Base inflation of 4.5%.

NOTE K--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note J, the Baraga County Road Commission provides post-employment health care insurance benefits to certain retired or permanently disabled union and administrative employees and/or their spouse in accordance with the following provisions:

Retired Union Employees

The hospital and medical coverage benefits are provided in accordance with Article 33(A.2a) and 33(A.2b) in the union agreement. Article 33(A.2a) states: When an employee elects to retire early and has at least twenty (20) years of continuous service with the Road Commission, the Road Commission agrees to continue to pay the premiums for the lesser of: (1) five years; or (2) until the employee's qualification for Medicare or death.

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE K--POST-EMPLOYMENT BENEFITS (Continued)

Article 33(A2b) states: For employees employed as of December 31, 1998 electing to retire early, the Road Commission agrees to continue to pay the premiums from age 62 to 65 or until the employee qualifies for Medicare or death, whichever comes sooner, even if the employee has not completed such twenty (20) years.

Retired Administrative Employees

The benefits are provided in accordance with Section 10(A.2) of the "General Employee Policy pertaining to Non-Bargaining Unit Employees," which includes the provision that when an employee elects to retire early, the Road Commission agrees to pay the medical insurance premium from age 60 to 65 or until the employee qualifies for Medicare, whichever comes sooner.

Permanently Disabled Employees

The benefits are provided in accordance with a board of road commissioners' policy adopted on November 13, 1996, which includes the provision that any regular employee having 20 years of service with the Road Commission who becomes permanently disabled, or any regular employee having 5 years of service with the Road Commission who becomes permanently disabled after reaching age 55, shall be eligible for health insurance benefits for a 36 month period. Said period shall commence the month after the month of the last day worked. Eligible employees are those who have been determined to be permanently disabled and are receiving social security disability and MERS retirement benefits. During the three year period under this policy, the Road Commission will pay the premiums for primary coverage until such time that the employee qualifies for Medicare Part B, at which time the Road Commission will pay the premium for secondary coverage.

The Road Commission's policy is to finance this benefit on a pay-as-you-go basis. During the fiscal year ended September 30, 2005, six retirees and/or disabled employees were eligible for this benefit at a total cost of \$75,779.

NOTE L--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal aid expended by the Road Commission was \$1,852,081 for contracted projects and \$2,337,013 for negotiated projects. The Federal aid received by the Road Commission was \$1,825,081 for contracted projects and \$2,390,110 for negotiated projects. The difference between the revenue and expenditures for negotiated projects is due to FEMA projects in progress at September 30, 2005, which are to be billed after project completions. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's Single Audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administrated by the Road Commission

BARAGA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE L--FEDERAL GRANTS (Continued)

and are subject to a single audit if the expenditures exceeded \$500,000. A Single Audit was performed during the fiscal year ended September 30, 2005, as there was \$2,337,013 expended in Federal Awards.

**BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL
For the Year Ended September 30, 2005**

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 285,000	\$ 296,000	\$ 296,092	\$ 92
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	3,964,000	2,123,000	2,158,359	35,359
FEMA	326,000	177,000	176,590	(410)
Emergency Watershed Protection	40,000	-	-	-
Emergency Relief			54,761	54,761
Surface Transportation Funds			400	400
Federal Aid (Contracted Projects)				
Surface Transportation Funds	400,000	752,000	706,452	(45,548)
Safety	200,000	201,000	201,402	402
Army Core of Engineers	2,000,000	867,000	867,281	281
Category "D" Funds		42,000	42,495	495
Emergency Relief	560,000	62,000	7,446	(54,554)
Public Lands			6	6
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,185,000	1,183,000	1,179,997	(3,003)
Local Road	637,000	635,000	632,625	(2,375)
Snow Removal	280,000	283,000	282,689	(311)
Economic Development Funds				
Economic "D" Funds	100,000	11,000	10,628	(372)
Forest Funds (E)	168,000	167,000	167,479	479
FEMA	55,000	29,000	28,571	(429)
Critical Bridge		458,000	456,937	(1,063)
Contributions--Local Units				
Townships	115,000	99,000	99,042	42
County	5,000	-	-	-
Charges for Services				
Salvage Sales	5,000	1,000	670	(330)
Interest and Rents				
Interest Earned	15,000	14,000	14,141	141
Other Revenue				
Refunds/Rebates			80	80
Gain on Equipment Disposals	5,000	-	(741)	(741)
Private Contributions	15,000	5,000	4,705	(295)
Total Operating Revenue	10,370,000	7,415,000	7,398,107	(16,893)
Other Financing Sources				
Installment Purchase Proceeds		82,000	75,642	(6,358)
Total Other Financing Sources	-	82,000	75,642	(6,358)
Total Revenue and Other Financing Sources	10,370,000	7,497,000	<u>\$ 7,473,749</u>	<u>\$ (23,251)</u>
Fund Balance--October 1, 2004	1,864,440	1,539,440		
Total Budget	<u>\$ 12,234,440</u>	<u>\$ 9,036,440</u>		

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2005

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation--Structural Improvements	\$ 3,055,000	\$ 1,920,000	\$ 1,834,538	\$ 85,462
Maintenance	775,000	670,000	627,138	42,862
Local Road				
Preservation--Structural Improvements	1,400,000	970,000	889,389	80,611
Maintenance	1,465,000	1,550,000	1,500,679	49,321
Primary Road Structure				
Construction--Capacity Improvements	280,000	210,000	176,675	33,325
Preservation--Structural Improvements	1,950,000	1,300,000	1,248,674	51,326
Maintenance	5,000	5,000	-	5,000
Local Road Structure				
Construction--Capacity Improvements	950,000	760,000	726,283	33,717
Preservation--Structural Improvements	230,000	380,000	337,139	42,861
Maintenance	5,000	5,000	-	5,000
Equipment Expense--Net	(225,000)	(165,000)		
Direct			\$ 585,154	
Indirect			254,885	
Operating			177,419	
Less: Equipment Rentals			<u>(1,245,825)</u>	(228,367)
Administrative Expense--Net	350,000	350,000		
Administrative Expense			347,387	
Less: Handling Charges			(20,186)	
Purchase Discounts			<u>(6)</u>	327,195
Capital Outlay--Net	60,000	(73,000)		
Capital Outlay			237,131	
Less: Depreciation Credits			(345,287)	
Equipment Retirements			<u>(741)</u>	(108,897)
Debt Service				
Principal Payments	225,000	229,300	228,691	609
Interest Expense	<u>20,000</u>	<u>18,700</u>	<u>18,134</u>	<u>566</u>
Total Expenditures	10,545,000	8,130,000	<u>\$ 7,577,271</u>	<u>\$ 552,729</u>
Fund Balance--September 30, 2005	<u>1,689,440</u>	<u>906,440</u>		
Total Budget	<u>\$ 12,234,440</u>	<u>\$ 9,036,440</u>		

The Notes to Financial Statements are an integral part of this statement.

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$ 3,969,776	\$ 3,411,595	\$ 16,736	\$ 7,398,107
Total Expenditures	3,992,825	3,471,980	112,466	7,577,271
Excess of Revenues Over (Under) Expenditures	(23,049)	(60,385)	(95,730)	(179,164)
Other Financing Sources (Uses)				
Installment Purchase Proceeds			75,642	75,642
Optional Transfers	(56,794)	56,794		-
Total Other Financing Sources (Uses)	(56,794)	56,794	75,642	75,642
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(79,843)	(3,591)	(20,088)	(103,522)
Fund Balance--October 1, 2004	227,099	3,591	1,531,147	1,761,837
Fund Balance--September 30, 2005	\$ 147,256	\$ -	\$1,511,059	\$ 1,658,315

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND
OTHER FINANCING SOURCES
For the Year Ended September 30, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes		\$ 296,092		\$ 296,092
Federal Aid (Negotiated Projects)				
Bureau of Indian Affairs	\$ 1,069,742	1,088,617		2,158,359
FEMA		176,590		176,590
Emergency Relief	54,761			54,761
Surface Transportation Funds	400			400
Federal Aid (Contracted Projects)				
Surface Transportation Funds	706,452			706,452
Safety	201,402			201,402
Army Core of Engineers	100,914	766,367		867,281
Category "D" Funds	42,495			42,495
Emergency Relief	7,446			7,446
Public Lands	6			6
State Aid				
Michigan Transportation Fund				
Engineering	6,510	3,490		10,000
Allocation	1,179,997	632,625		1,812,622
Snow Removal		282,689		282,689
Economic Development Fund				
Economic "D" Funds	10,628			10,628
Forest Funds (E)	130,000	37,479		167,479
FEMA		28,571		28,571
Critical Bridge	456,937			456,937
Contributions--Local Units				
Townships		99,042		99,042
Charges for Services				
Salvage Sales			\$ 670	670
Interest and Rents				
Interest Earned	2,086	33	12,022	14,141
Other Revenue				
Refunds/Rebates			80	80
Gain on Equipment Disposal			(741)	(741)
Contributions From Private Sources			4,705	4,705
Total Operating Revenue	3,969,776	3,411,595	16,736	7,398,107
Other Financing Sources				
Installment Purchase Proceeds			75,642	75,642
Total Other Financing Sources	-	-	75,642	75,642
Total Revenue and Other Financing Sources	\$ 3,969,776	\$ 3,411,595	\$ 92,378	\$ 7,473,749

BARAGA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation--Structural Improvements	\$ 1,834,538			\$ 1,834,538
Maintenance	627,138			627,138
Local Road				
Preservation--Structural Improvements		\$ 889,389		889,389
Maintenance		1,500,679		1,500,679
Primary Road Structures				
Construction--Capacity Improvements	176,675			176,675
Preservation--Structural Improvements	1,248,674			1,248,674
Local Road Structures				
Construction--Capacity Improvements		726,283		726,283
Preservation--Structural Improvements		337,139		337,139
Equipment Expense--Net (Per Exhibit H)	(67,460)	(135,445)	\$ (25,462)	(228,367)
Administrative Expense--Net (Per Exhibit H)	173,260	153,935		327,195
Capital Outlay--Net (Per Exhibit H)			(108,897)	(108,897)
Debt Service				
Principal Payments			228,691	228,691
Interest Payments			18,134	18,134
Total Expenditures	\$ 3,992,825	\$ 3,471,980	\$ 112,466	\$ 7,577,271

BARAGA COUNTY ROAD COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

SCHEDULE 1

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Revenue Recognized</u>	<u>Federal Expenditures</u>
Negotiated Projects (1)				
US Department of Transportation				
Highway Research, Planning and Construction				
Direct--US Department of Interior				
Bureau of Indian Affairs	20.205	AGF50030018	\$ 5,700	\$ 5,700
Bureau of Indian Affairs	20.205	AGF50030025	304,956	304,956
Bureau of Indian Affairs	20.205	AGF50040013	813,708	813,708
Bureau of Indian Affairs	20.205	AGF50030024	1,033,995	1,033,995
Passed Through Michigan Department of Transportation				
Surface Transportation Program	20.205	RR 3106 51649A	400	
Emergency Relief Program	20.205	RR 4358 78933C	8,800	8,800
Emergency Relief Program	20.205	RR 4065 77756A	2,500	2,500
Emergency Relief Program	20.205	RR 4253 77756C	8,000	8,000
Emergency Relief Program	20.205	RR 4252 74840C	19,881	19,881
Emergency Relief Program	20.205	RR4251 54834C	15,580	15,580
Total US Department of Transportation			2,213,520	2,213,120
Federal Emergency Management Agency				
Passed Through Michigan State Police				
Public Assistance Grant	97.036	013-0c6f6-00	176,590	123,893
Total Negotiated Projects Subject to Single Audit Requirements			\$ 2,390,110	\$ 2,337,013
Contracted Projects (2)				
US Department of the Army				
Flood Recovery and Mitigation Program	12.103	W911XK-04-C-0014	\$ 867,281	\$ 867,281
Total US Department of the Army			867,281	867,281
US Department of Transportation				
Passed Through Michigan Department of Transportation				
Highway Research, Planning and Construction				
Public Lands	20.205	YY 0164 54636A	6	6
Economic Development "D"	20.205	YY 0164 54636A	4	4
Surface Transportation Program	20.205	RR 4498 54637A	286,408	286,408
Surface Transportation Program	20.205	RR 3564 54834A	5,339	5,339
Surface Transportation Program	20.205	RR 3613 74840A	9,100	9,100
Emergency Relief Program	20.205	RR 3613 74840A	7,446	7,446
Surface Transportation Program	20.205	RR 4065 77756A	2,834	2,834
Safety Hazard Elimination Plan	20.205	RR4023 78204A	1,402	1,402
Surface Transportation Program	20.205	RR4023 78204A	1,402	1,402
Economic Development "D"	20.205	RR 4067 78871A	42,491	42,491
Surface Transportation Program	20.205	RR 4066 78927A	56,024	56,024
Surface Transportation Program	20.205	RR 4030 78931A	384	384
Surface Transportation Program	20.205	RR 4357 78933A	257,482	257,482
Safety Hazard Elimination Plan	20.205	RR 4390 80545A	200,000	200,000
Surface Transportation Program	20.205	RR 4390 80545A	87,478	87,478
Total US Department of Transportation			957,800	957,800
Total Contracted Projects			\$ 1,825,081	\$ 1,825,081
Total Federal Aid Projects			\$ 4,215,191	\$ 4,162,094

The notes to this schedule are an integral part of this statement

BARAGA COUNTY ROAD COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2005

1. Negotiated projects are projects that the Road Commission's work force performs in accordance with a contract negotiated with Michigan Department of Transportation.
2. Contracted projects are administered by the Michigan Department of Transportation (MDOT) and will be included in its Single Audit.
3. This schedule is presented on the modified accrual basis of accounting; please refer to Note B of the financial statement notes for other significant accounting policies.

Baraga County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issues: unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported
- Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes X No
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
20.205	Highway Research, Planning and Construction

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Baraga County Road Commission
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section II--Financial Statement Findings

No Material or reportable conditions were reported related to internal control.

Our examination revealed the following instance of noncompliance with State statutes.

Snow Removal From Private Property

Finding 05-1

Condition: The advance for driveway plowing contained a negative balance of \$10,987 at September 30, 2005, which means that the expenditures exceeded the reimbursement for snow removal from private property.

Criteria: MCL 247.361 (2) states: "In any county in the upper peninsula without a voted millage for snow removal, the board of county road commissioners may contract with the owners of private driveways, or road to remove snow from the private driveway or road. The contract shall provide for the reimbursement of snow removal costs to the board of county road commissioners."

Directive: We recommend that the Road Commission be fully reimbursed for the cost of snow removal from private property in accordance with MCL 247.367 (2). The board of county road commissioners should continue to review the private driveway fees and consider the negative balance from the prior year when determining the new rates.

- Contact Person(s) Responsible for Correction
Mary Bedner, Clerk/Office Manager
- Corrective Action Planned
There was a heavier snow fall during the 2004/2005 snow season. This resulted in an increase in expenditures as we worked overtime and on weekends to plow the drives, which resulted in a negative driveway plowing advance. We review the driveway snow plowing deposit balance annually and had increased the private snow plow rates by 10% for the 2005/2006 snow season. We are nearing the end of the 2005/2006 snow season and have a credit balance in the advance account.
- Anticipated Completion Date
Corrective action has already been done.

Section III--Federal Award Findings and Questioned Costs

No matters were reported.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

February 8, 2006

Board of County Road Commissioners
Baraga County
US 41 South
P.O. Box 217
Baraga, Michigan 49946

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Baraga County Road Commission, a component unit of Baraga County, as of and for the year ended September 30, 2005 and have issued our report thereon dated February 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Baraga County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Baraga County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1.

This report is intended solely for the information of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'CJ Vaughn', is positioned above the printed name.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

February 8, 2006

Board of County Road Commissioners
Baraga County
US 41 South
P.O. Box 217
Baraga, Michigan 49946

RE: Report on Compliance With Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance With OMB Circular A-133

Dear Commissioners:

Compliance--We have audited the compliance of Baraga County Road Commission (component unit of Baraga County) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2005. Baraga County Road Commission's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Baraga County Road Commission's management. Our responsibility is to express an opinion on Baraga County Road Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program has occurred. An audit includes examining, on a test basis, evidence about Baraga County Road Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baraga County Road Commission's compliance with those requirements.

In our opinion, Baraga County Road Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended September 30, 2005.

Internal Control Over Compliance--The management of Baraga County Road Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Baraga County Road Commission's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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